

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 98-653-S - ORDER NO. 2000-0481

JUNE 7, 2000

| | | | |
|--------|---|---|-------------------|
| IN RE: | Application of Palmetto Utilities, Inc. for |) | ORDER APPROVING |
| | Approval of an Increase in its Rates and |) | RATES AND CHARGES |
| | Charges for its Sewer Services. |) | |

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I. INTRODUCTION

This matter comes before the Public Service Commission of South Carolina (the Commission) on the Application of Palmetto Utilities, Inc. (Palmetto or the Company) for approval of a new schedule of rates and charges for sewer service for its customers in South Carolina. The Company has a 125 square mile service area in northeast Richland County and a portion of Kershaw County, South Carolina, and serves some 4,000 Single Family Equivalents (SFEs). The Company's Application was filed pursuant to S.C. Code Ann. Section 58-5-240 (Supp. 1999) and R. 103-821 of the Commission's Rules of Practice and Procedure.

By letter, the Commission's Executive Director instructed the Company to publish a prepared Notice of Filing, one time, in a newspaper of general circulation in the area affected by the Company's Application. The Notice of Filing indicated the nature of the Company's Application and advised all interested parties desiring participation in the scheduled proceeding of the manner and time in which to file the appropriate pleadings. The Company was likewise required to notify directly all customers affected by the

proposed rates and charges. The Company filed affidavits, showing that it had complied with the instructions of the Executive Director.

A Petition to Intervene was filed on behalf of the Consumer Advocate for the State of South Carolina (the Consumer Advocate).

The Commission Staff made on-site investigations of the Company's facilities, audited the Company's books and records, and gathered other detailed information concerning the Company's operations.

A night hearing was held on April 5, 2000 to hear from the customers of the Company.

A further public hearing relative to the matters asserted in the Company's Application was held on April 20, 2000 at 10:30 AM in the offices of the Commission at 101 Executive Center Drive, Columbia, South Carolina. Pursuant to S.C. Code Ann. Section 58-3-95 (Supp. 1999), a panel of three Commissioners composed of Commissioners Saunders, Carruth, and Atkins was designated to hear and rule on this matter. Vice-Chairman Saunders presided. John M.S. Hoefer, Esquire represented the Company; Charles M. Knight, Esquire and Elliott F. Elam, Jr., Esquire, represented the Consumer Advocate; and F. David Butler, General Counsel, represented the Commission Staff.

The Company presented the testimony of R. Stanley Jones, President of the Company, Julie A. Profilet, office manager and bookkeeper for the Company, and William J. Pouncey, Certified Public Accountant. The Commission Staff presented the

testimony of Steve Gunter, Auditor, and Charles Creech, Chief of the Commission's Water and Wastewater Department.

II. DISCUSSION OF TESTIMONY

R. Stanley Jones, President of the Company, presented testimony. Tr., Jones at 63-115. Jones' responsibilities include the day-to-day management and oversight of the Company's wastewater treatment operations, provision of engineering services, and supervision of environmental compliance. Additionally, Jones functions as the business manager for the Company and is involved with vendor and contractor relations and lender negotiation. Jones also oversees the Company's seven employees.

Jones notes that the presently authorized service area of the Company consists of unincorporated areas of northeastern Richland County, the Town of Blythewood, and an adjoining area in southwestern Kershaw County. The Company serves thirteen residential developments, a commercial food distribution plant, public schools, restaurants, and a number of other commercial customers located in the Company's service area.

Jones presented the history of the service area of the Company. Jones noted that the Company last requested a general rate increase on March 17, 1997. By Order No. 97-699, the Commission granted the relief requested. The increased rates became effective on August 15, 1997. Since the last rate case, the Company has not been cited by the South Carolina Department of Health and Environmental Control (DHEC) for any major infractions and has incurred no fines.

According to Jones, the Company's sewerage system includes the Spears Creek Regional Wastewater Treatment Plant, and a series of gravity and force collector mains

for transportation. The treatment plant has a permitted capacity of 2.25 million gallons per day for the rapid infiltration system. The total transportation system also features 38 pump stations and the force mains associated with them. The effluent is disposed of by way of rapid infiltration on a 100 acre site located in the service area and by way of authorized discharge into Spears Creek.

Jones testified that, since the last rate case, the Company has added approximately \$4 million of additional plant and facilities, including expanding the capacity of the Spears Creek Regional Wastewater Treatment Plant and construction of a major trunk line on Rice Creek. Jones also noted that the Company's expenses have increased across the board. With the expansion in customer base, Jones states that the Company has incurred increased operational expenses such as purchased power, sludge disposal, employee salaries, chemicals, and the like, as well as increased taxes, license fees and assessments. According to Jones, the proposed rate increase of \$26.50 per month to \$29.50 per month for residential customers and \$26.50 per SFE per month to \$29.50 per SFE per month for commercial customers is designed to generate additional revenues that will allow the Company to move closer to being on a sound financial footing, to allow it to raise additional capital, and to increase its earnings to a more reasonable level through fair charges to the consumer. Jones states that even after the proposed increase, the Company will experience an operating deficit of more than (\$555,173) annually. Currently, according to Jones the Company's operating deficit, as adjusted, is (\$701,429) on an annual basis. Jones states that the Company is mindful of the effect that any increase will have on customers. Jones states that this operating deficit is primarily

attributable to the Company's investments in plant and facilities so as to meet Section 201/208 obligations for the Wateree drainage basin.

Julie A. Profilet, accounting manager for the Company, presented information with regard to the revisions to the Company's financial statements, and the Company's customer service efforts. Tr., Profilet at 35-46.

William T. Pouncey, C.P.A., testified with regard to the revised financial statements attached to Julie Profilet's testimony, the unrevised financial statements attached to the Application, and the Company's need for rate relief. Tr., Pouncey at 46-60. Pouncey noted that during the period following the Company's rate filing, it was discovered that revisions to the income and expense portion of financial statements were needed to correct miscalculations made in adjusting certain test year expenses. Pouncey noted that this fact did not alter the losses experienced by the Company during the test year. Pouncey states, however, that the revised statements are more accurate. Pouncey explained the various financial exhibits.

Pouncey testified that the Company's test year operating margin was (34%). As adjusted, the operating margin becomes (54%). Under the proposed rates, the Company would, according to Pouncey, experience an operating margin of (39%). Pouncey went on to explain adjustments that he made to test year expenses, including adjustments to utility expenses, depreciation expense, property taxes, rate case expenses, and salary expenses. Pouncey concluded that Palmetto continues to experience an insufficient level of earnings and is in need of rate relief.

The Commission Staff presented the testimony of Steve W. Gunter. Tr., Gunter at 122-189. Gunter, an auditor for the Commission's Audit Department, explained his exhibits. Gunter calculated an operating margin of (63.47%) on the Company's per book operations. After adjustment, Gunter calculated a positive operating margin of 5.05%, based on a 50/50 capital structure. Gunter noted that if the Commission adopted the proposed increase, the operating margin becomes 10.88%.

Gunter explained the differences between Staff and the Company on various accounting adjustments. First, Staff annualized service revenues and identifiable expenses of customers added in April of 1999, but not billed by the Company until May of 1999. (The test year ended April 30, 1999.) Staff annualized only quantifiable expenses, which were utility and chemical expense. The Company proposed no adjustment. Staff reduced O&M expenses for the cost of installing new taps. The Company could not identify actual costs, therefore, Staff used the approved tap fee times the number of taps connected during the test year. The Company did not propose an adjustment.

Gunter also decreased expenses for items considered to be nonallowables, including items which should have been capitalized. The Company proposed no adjustment. Staff eliminated the pay increase granted to the Company's President during the test year. The Company did not propose an adjustment. Staff eliminated the Per Book interest expense from Operating Expenses. Staff computed interest expense for operating margin purposes based on interest synchronization. The Company's embedded cost of

debt rate of 8.34% and a capital structure consisting of 50% long term debt and 50% common equity was used in computing the interest expense in this case.

In addition, Staff eliminated the Company's per book rate case expense that represents the final year of the amortization of the prior rate case expenses. Staff allowed the Company a three-year amortization of these expenses, which would have fully amortized them prior to the beginning of the test year. Gunter allowed the Company to amortize one third of their actual rate case expenses for the present rate case. The Company adjusted for an estimated amount. Staff also reduced the expense for the River Modeling Study and instead allowed a three-year amortization. Staff's amortization is based on evidence which suggests that this study may not be performed again in the future. The Company proposed to expense the entire amount.

Gunter also annualized depreciation expense after reducing plant for contributions in aid of construction and nonutility plant. The Company did not reduce plant for contributions in aid of construction before computing the depreciation adjustment. In addition, Staff reduced annualized depreciation and property taxes for the Valhalla treatment plant, which was taken out of service after the year-end. The Company did not propose an adjustment. Staff also annualized depreciation expense on the Spears Creek upgrade completed after the test year-end. The Company did not propose an adjustment.

With regard to taxes, Staff adjusted property taxes for effects of upgrading Spears Creek. The Company did not propose an adjustment. Gunter also computed income tax expense using current income tax rates applied to Net Operating Income, reduced by the

synchronized interest expense. The Company proposed no adjustment for income taxes.

Staff also calculated customer growth using a standard formula.

Gunter also discussed in some detail the proposed treatment of the Company's impact fee and interest expense. In direct testimony, Gunter alluded to the fact that the Commission authorized an \$800 impact fee for the Company. Staff then noted that in Order No. 90-17 related to the old Valhalla system, the Commission specifically speaks to the fact that impact fees should be charged to new homeowners connecting to the system in order that the utility can accumulate funds to make improvements without burdening the ratepayers or at least reducing the burden on the ratepayers. Gunter then stated a belief that in order to accomplish accumulation of funds, that impact fees should be escrowed and kept separate from operating funds. The point being that if this is not done, then such funds could be mixed with operating funds and used for purposes other than those intended when the impact fee was authorized. Further, Gunter proposed that these funds should only be used once permission is granted by the Commission to do so.

Finally, Gunter noted that Staff's position towards interest expense. Gunter noted that in Commission Order No. 97-699, the Commission allowed the full amount of book interest expense in determining the rates. In the present case, Staff calculated interest expense using the interest synchronization method making use of a 50/50 capital structure. Gunter noted that the Commission's Order stated that it was not the intention of the Commission to set a precedent by allowing the full amount of book interest expense; that the prior rate case was a unique set of circumstances. Staff goes on to state the belief

that the Commission should be allowed to determine if the same unique set of circumstances is present in this case.

Charles Creech, Chief of the Commission's Water and Wastewater Department also testified. Tr., Creech at 190-212. Creech noted that if the revenue requested by the Company in this case was approved by the Commission, the Company would receive an 11.13% increase in revenue. Creech also stated that the consumers in the Briarcliff subdivision had complained about the odor being emitted from the pump station, and also that the area was an eyesore. Creech encouraged the Company to install a fence around the property, and do whatever is possible to keep the odor to a minimum. Staff did not detect an odor being emitted from the pump station at the time of its visit to that facility.

William T. Pouncey, C.P.A., filed rebuttal testimony to the Staff testimony of Steve Gunter. Tr., Pouncey at 225-242. Pouncey questions the Staff's proposed adjustment to the claimed interest expense. Pouncey questions the use of interest synchronization in this case, wherein rate base regulation is not at issue. Pouncey alleges that the Staff's calculation significantly overstates the amount of the Company's interest expense associated with cash flow. Pouncey's rebuttal also recommends, in response to Gunter's testimony, that operational and maintenance expenses should be allowed to reflect increases in outside services, repairs, and maintenance, and transportation expenses for providing service to Hardwicke Chemical. Pouncey concluded his rebuttal testimony by noting that even if all of Staff's accounting adjustments were allowed, some of which were opposed to by the Company, the Company's operating margin would still be within a just and reasonable range.

R. Stanley Jones also presented rebuttal testimony. Tr., Jones at 242-279. Jones also contested Staff's interest adjustment, and recommended an additional allowance for expenses attributable to the Hardwicke Chemical Plant. Jones also replies to Gunter's testimony that the Company should be required to escrow plant impact fees it collects from new customers.

Jones noted on the interest question that there is no question that the amount of interest claimed was in fact paid by the Company, and that Staff was asking the Commission to disregard almost \$310,000 of an actual, out-of-pocket expense of over \$390,000 that has been incurred. In other words, according to Jones, the Staff's adjustment ignores approximately 80% of this expense to the Company. Further, Jones states that, in the last Order, in spite of Staff's objections, the Company was allowed its entire interest expense. Lastly, Jones states that interest synchronization is not appropriate, since the Company has been regulated by the operating margin, and not a return on rate base method.

With regard to the additional expenses attributable to Hardwicke Chemical, Jones states that the Company will incur more than the \$10,727 in additional expenses calculated by Staff to serve this customer. Jones notes that the addition of Hardwicke Chemical increases other expenses of Palmetto not allowed by the Staff, such as lab work, sludge disposal, repairs and maintenance, and certain transportation costs.

Jones also takes issue with Staff's recommendation that the Company be required to escrow impact fees it collects from new customers. First, Jones expresses a basic philosophical difference from the Staff with regard to these fees. Jones characterizes

Staff's view as being that the funds are for funding future plant construction. The Company believes that the fees allow them to recover a portion of the capacity created by its already existing investment in plant and facilities. Second, Jones states that a requirement that the Company escrow impact fees will only exacerbate the need for the Company to borrow money on a short term basis to fund day-to-day operations. Third, Jones asserts that a requirement that impact fees be escrowed will only be harmful to the Company's existing customer base. Jones notes that these customers have paid for their share of plant capacity costs through impact fees. An escrow of the fees would end up costing the customers if the funds could not be used for present needs, since monies would have to be borrowed or rates would have to be increased. Fourth, Jones states that Staff's proposal invades Palmetto's right to operate its business in the most efficient manner possible within sound business judgment and prudent utility practices. Finally, Jones disagrees that the expenditure of plant impact fees for day-to-day operations is in any way inappropriate. Under Jones' theory, the Company has done nothing which justifies hampering its ability to manage cash flow consistent with its obligations to provide or extend services.

Staff witness Steve Gunter filed surrebuttal testimony. Tr., Gunter at 281-301. With regard to the interest expense question, Gunter noted that Staff computed interest associated with the debt portion of rate base. Further, although the Commission allowed the Company its full amount of interest expense in the last rate case, the Commission specifically stated that the decision was for that particular case only, and was not meant to be regarded as a precedent. Gunter also noted that even if the Commission accepts

Staff's adjustments, the Company will not operate at a loss. Although it is true that Palmetto is not regulated by rate base regulation per se, Gunter points out that rate base is still an integral part of the ratemaking process, otherwise Staff or the Company would have no basis for computing depreciation or property taxes. Further, according to Gunter, Staff calculated interest expense associated with only that investment upon which the utility is allowed to earn a rate of return and/or operating margin. Since the Company's capitalization was 100% debt, which is not representative of a "normal" capital structure, Staff used a 50-50 capital structure as a more reasonable alternative for the Commission's consideration.

With regard to the additional Hardwicke Chemical expenses, Gunter testified that Staff based its adjustment on information furnished by the Company at the time of the audit, and that these additional expenses were not brought to Staff's attention at that time. Gunter testified that Staff would have recognized any other reasonable expense that the Company believed would be increased due to additional customers, but that this information was not provided to Staff.

In considering the impact fee issue, Gunter stated that it was difficult to determine with any degree of certainty if plant impact fees were used for the expansion or modification of plant during the year, because of the mixing of impact fees with operational funds. Gunter testified that, at a minimum, the impact fees should be kept in a separate account, even if no permission from the Commission was needed to utilize the funds. In this way, the use of each dollar could be determined.

III. MOTION DISCUSSION

At the opening of the hearing, counsel for Palmetto Utilities made a Motion in limine to strike the prefiled direct testimony of Staff witness Gunter beginning at page 7, line 18 and including all testimony on plant impact fees, and, if we should not grant the original Motion, to strike Gunter's surrebuttal testimony from page 3, line 4 to page 4, line 22, which concerns the same issue. Despite the lengthy five-part Motion proffered by Palmetto, and the extended oral arguments engaged in by the parties, we hold that the Motion is moot, based on our holding on this issue below.

Essentially, the issue has to do with the Company's authorized \$800 plant impact fee, and the Company's use of those funds. Order No. 90-17 concerning Palmetto's later-acquired customer base from the Valhalla system states that impact fees should be charged to new homeowners connecting to the system in order that the utility can accumulate funds to make improvements without burdening the ratepayers. Staff in the present case had at first suggested escrowing these funds, with Commission permission first needed before the funds could be used. In Staff's surrebuttal, Staff retreated to some degree from that position, and recommended at least separating the funds into a separate account, with no Commission permission needed for the Company to utilize the funds. The object, in both cases was to allow some tracking of the plant impact fee funds. This is certainly a reasonable goal, in view of the language in the Valhalla Order. However, as we state below, we do not believe that sufficient Notice has been given to the Company for us to consider the matter in the present case, and we deny the Staff's proposals. For

this reason, we believe that the Company's Motion is moot, and there is no need to strike the testimony in question.

IV. FINDINGS OF FACT

1. The Company is a sewer utility operating in the State of South Carolina and is subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. Section 58-5-10, et seq. (Supp. 1999)

2. The Company provides sewer service to thirteen residential developments, a commercial food distribution plant, public schools, restaurants, and a number of other commercial customers in certain unincorporated areas of northeastern Richland County and in an adjoining area of southwestern Kershaw County. Tr., Jones at 67.

3. Palmetto's present rates and charges were approved by Commission Order No. 97-699, issued August 12, 1997 in Docket No. 96-376-S.

4. At present, Palmetto charges a flat rate of \$26.50 per month. The commercial monthly rates are \$26.50 per SFE. The Company is seeking an increase to \$29.50 per month for its residential systems, and \$29.50 per SFE for commercial customers.

5. Palmetto asserts that this requested rate increase is required because the Company's expenses have increased across the board. According to the testimony of Jones, with the expansion in customer base since the Company's last rate case, the Company has incurred increased operational expenses such as purchased power, employee salaries, and chemicals and the like. Other expenses, such as taxes, license fees,

and assessments have also risen. Since the last rate case, the Company has added approximately \$4 million of additional plant and facilities. Tr., Jones at 70-71.

The Company testified that it has experienced for the test year ending April 30, 1999, after accounting and pro forma adjustments, a loss of \$701,429 and an operating margin of (54%). Tr., Pouncey at 51. Staff's calculations, after adjustments and interest, shows a net income for return of \$151,888 and an operating margin of 5.05%. Hearing Exhibit 3, Exhibit A.

6. The Company proposes that the appropriate test period to consider its requested increase is the twelve (12) month period ending April 30, 1999. Tr., Pouncey at 50. Application of Company. The Staff concurred in using the same test year for its accounting and pro forma adjustments. Tr., Gunter at 126.

7. Under its presently approved rates, the Company's operating margin after interest and after accounting and pro forma adjustments is 5.05%. The Company seeks an increase in its rates and charges for sewer service which would result in an operating margin of 10.88%. Tr., Gunter at 128-129.

8. Under the Company's presently approved rates, the Company's operating revenues for the test year after accounting and pro forma adjustments are \$1,404,953. The Company seeks an increase in its rates and charges for sewer service in a manner which would increase its operating revenues to \$1,561,382. Hearing Exhibit 3, Exhibit A.

9. The Company's total operating expenses, under its presently approved rates, for the test year after accounting and pro forma adjustments are \$1,263,636. The only objections to Staff's accounting adjustments were to the allowable interest

calculation, and to the lack of additional expenses attributable to bringing Hardwicke Chemical on as a customer. (These issues, as well as the issue of plant impact fees will be dealt with infra.) All other Staff accounting adjustments are hereby adopted, based on the points raised in the summary of Staff witness Gunter's testimony, supra.

10. Staff's adjustments are also adopted for interest expense. With regard to the interest expense, we find that our treatment of said expense in Order No. 97-699 was non-precedential in nature, as was stated in that Order. We hold that although the Company may still be operating at a loss, as was the scenario described in Order No. 97-699, the better approach in the present case is to make an adjustment to interest expense by removing non-utility property from rate base. The rate base in this case has also been substantially reduced by contributions in aid of construction. Interest synchronization is the proper approach in this case because it allowed interest expense for ratemaking purposes associated only with that investment upon which the utility is allowed to earn a rate of return and/or operating margin. Since the Company's capitalization was 100% debt, which is not representative of a "normal" capital structure, Staff used a 50-50 capital structure as a more reasonable alternative. See Tr., Gunter at 289. We find this approach reasonable for interest expense in this case, and adopt it, since the only interest expense allowed is associated only with that investment upon which the utility is allowed to earn a rate of return and/or operating margin. With regard to the additional expenses attributable to Hardwicke Chemical, this Commission adopts the Company's position, and we allow these expenses in the amount of \$27,567. (Tr., Pouncey at 230.) We believe that there was perhaps a miscommunication with Staff in this case. The

Company showed the expense actually incurred at the hearing in this case. We therefore grant these expenses. Total operating expenses are therefore \$1,275,609.

11. The Commission Staff calculated the operating margin after interest to be 8.40% using the approved rate of 28.50 per month and accepting the approved accounting adjustments.

V. CONCLUSIONS OF LAW

1. The Company is a sewer utility providing sewer service in its service area in South Carolina. The Company's operations in South Carolina are subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. Section 58-5-10 (Supp. 1999) et seq.

2. A fundamental principle of the ratemaking process is the establishment of a historical test year with the basis for calculating a utility's rate base and, consequently, the validity of the utility's requested rate increase. While the Commission considers a utility's proposed rate increase based upon occurrences within the test year, the Commission will also consider adjustments for any known and measurable out-of-test year changes in expense, revenues, and investments, and will also consider adjustments for any unusual situations which occurred in the test year. See Southern Bell v. The Public Service Commission, 270 S.C. 590, 244 S.E. 2d 278 (1978).

3. The Company chose the test year ending April 30, 1999. The Commission Staff used the same test year in calculating its adjustments. The Commission is of the opinion that the test year ending April 30, 1999, is appropriate for the purposes of this rate request based on the information available to the Commission.

4. The Commission concludes that the Staff's adjustments to the Company's operating revenues are appropriate for the purposes of this Order. The Staff's adjustments recognize the annual level of revenues, based on a billing analysis performed by the Company and audited by the Staff, and the adjustment of certain fees collected. Accordingly, the Commission finds that the appropriate level of revenues for the Company for the test year under the present rates and after accounting and pro forma adjustments is \$1,404,953. Hearing Exhibit 3, Exhibit A.

5. The Commission also concludes that the Staff's adjustments to the Company's operating expenses are appropriate for the purposes of this Order, except that we adopt the Company's proposal for Hardwicke Chemical expenses.

6. Accordingly, the Commission concludes that the Company's appropriate operating expenses for the test year, after accounting and pro forma adjustments is \$1,275,609.

7. The Company's appropriate net operating income for the test year, after accounting and pro forma adjustments is \$129,344. With the addition of customer growth of \$9,675, net income for return becomes \$139,019. Hearing Exhibit 3, Exhibit A.

8. Under the guidelines established in the decisions of Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923), and Federal Power Commission v. Hope Natural Gas, 320 U.S. 591 (1944), this Commission does not ensure through regulation that a utility will produce net income. As the United States Supreme Court noted in Hope, a utility "has no constitutional rights to profits such as are realized or anticipated in highly profitable

enterprises or speculative ventures.” However, employing fair and enlightened judgment and giving consideration to all relevant facts, the Commission should establish rates which will produce revenues “sufficient to assure confidence in the financial soundness of the utility and ...that are adequate under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties.” Bluefield, supra, at 692-693.

9. There is no statutory authority prescribing the method which this Commission must utilize to determine the lawfulness of the rates of a public utility. For a sewer utility whose rate base has been substantially reduced by customer donations, tap fees, contributions in aid of construction, and book value in excess of investment, the Commission may decide to use the “operating ratio” and/or “operating margin” method for determining just and reasonable rates. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues; the operating margin is determined by dividing the net operating income or loss for return by the total operating revenues of the utility. This method was recognized as an acceptable guide for ratemaking purposes in Patton v. South Carolina Public Service Commission, 280 S.C. 288, 312 S.E. 2d 257 (1984).

Based on the Company’s gross revenues for the test year, after accounting and pro forma adjustments under the presently approved schedules, the Company’s operating expenses for the test year after accounting and pro forma adjustments and customer growth, the Company’s present operating margin is as follows:

**TABLE A
OPERATING MARGIN**

BEFORE RATE INCREASE

| | |
|-----------------------------------|------------------|
| Operating Revenues | \$1,404,953 |
| Operating Expenses | <u>1,275,609</u> |
| Net Operating Income | 129,344 |
| Customer Growth | <u>9,675</u> |
| Total Income for Return | <u>139,019</u> |
| Operating Margin (After Interest) | <u>4.12%</u> |

10. We as a Commission are concerned about the plant impact fee issue raised by the Staff. We are particularly concerned about the language appearing in our Order No. 90-17, which was published in connection with a proceeding involving Valhalla, a Company whose customer base was subsequently obtained by Palmetto Utilities. That Order stated that plant impact fees were to be collected from new homeowners so that that Company could accumulate a fund to make later improvements to the sewer system. Palmetto appears to be using these plant impact fees as a source of additional revenue. However, since the language in the above-stated Order appeared in a Valhalla Order, and not in a Palmetto Utilities Order, we have doubts about actual Notice to Palmetto Utilities as to a policy on plant impact fees. Therefore, we decline to order that these monies be escrowed or placed in a separate account at this time. We also decline to count these monies as revenues in this case. However, the above-quoted language in Order No. 90-17, and the Company's testimony in this case raise a real question in our minds as to the proper accounting treatment of plant impact fees in general in water and wastewater

cases. Accordingly, we hereby establish a generic Docket on this subject, so that we may investigate this question. As part of the investigation, we are hereby requesting that Staff check with other jurisdictions to determine their accounting treatment of such fees.

11. The Commission is mindful of the standards delineated in the Bluefield decision and of the need to balance the respective interests of the Company and of the consumer. It is incumbent upon this Commission to consider not only the revenue requirements of the Company but also the proposed price for the sewer service, the quality of the service, and the effect of the proposed rates upon the consumer. See Seabrook Island Property Owners Association v. S.C. Public Service Commission, 303 S.C. 493, 401 S.E. 2d 672 (1991); S.C. Code Ann. Section 58-5-290 (1976), as amended.

12. Based on the considerations enunciated in Bluefield and Seabrook Island, the Commission determines that the Company should have the opportunity to earn a 8.40% operating margin. In order to have a reasonable opportunity to earn a 8.40% operating margin, the Company will need to produce \$104,293 in additional annual operating revenues.

**TABLE B
OPERATING MARGIN**

AFTER RATE INCREASE

| | |
|-----------------------------------|------------------|
| Operating Revenues | \$1,509,246 |
| Operating Expenses | <u>1,315,790</u> |
| Net Operating Income | 193,456 |
| Customer Growth | <u>14,471</u> |
| Total Income for Return | <u>207,926</u> |
| Operating Margin (After Interest) | <u>8.40%</u> |

13. The Commission recognizes the increase in operating expenses and the additional expenses incurred by the Company. The Commission further recognizes that under the current rates, the Company is experiencing a low operating margin.

14. The Commission concludes that an increase in rates is necessary, and that the proposed increase is reasonable and appropriate. Accordingly, the Commission will design rates which will increase the flat monthly rate for Palmetto customers from \$26.50 per month to \$28.50 per month. The commercial monthly rate shall be increased from \$26.50 per SFE to \$28.50 per SFE.

15. Based on the above considerations and reasoning, the Commission hereby approves the rates and charges as stated in this Order and attached hereto as Appendix A as being just and reasonable. The rates and charges approved are designed in such a manner in which to produce and distribute the necessary revenues to provide the Company the opportunity to earn the approved operating margin.

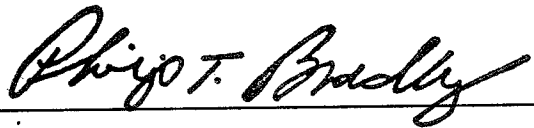
16. Accordingly, it is ordered that the rates and charges attached on Appendix A are approved for service rendered on or after the date of this Order. The rate schedule is hereby deemed to be filed with the Commission pursuant to S.C. Code Ann. Section 58-5-240 (Supp. 1999).

17. It is ordered that should the approved schedule not be placed into effect before three (3) months after the effective date of this Order, then the approved schedule shall not be charged without written permission of the Commission.

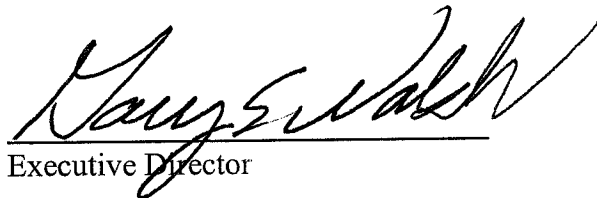
18. It is further ordered that the Company maintain its books and records for sewer operations in accordance with the NARUC Uniform System of Accounts for Class A and B utilities, as adopted by this Commission.

19. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Executive Director

(SEAL)

APPENDIX A

PALMETTO UTILITIES, INC.
R. STAN JONES
1 SMALLWOOD CIRCLE
COLUMBIA, SC 29223
PHONE: (803) 699-2409

DOCKET NO.: 98-653-S
ORDER NO.: 2000-0481
DATE: JUNE 7, 2000

SEWER RATES

1. MONTHLY CHARGE

- a. *Residential* - Monthly charge per
single-family house, condominium,
villa, or apartment unit: \$ 28.50
- b. *Commercial* - Monthly charge per
single -family equivalent \$ 28.50
- c. The monthly charges listed above are minimum charges and shall apply even if the equivalency rating is less than one (1). If the equivalency rating is greater than one (1), then the monthly charges may be calculated by multiplying the equivalency rating by the monthly charge.

Commercial customers are those not included in the residential category above and include, but are not limited to, hotels, stores, restaurants, offices, industry, etc.

The Utility will, for the convenience of the owner, bill a tenant. However, all arrearages must be satisfied before service will be provided to a new tenant or before interrupted service will be restored. Failure to pay for services rendered to a tenant may result in service interruptions.

- **All following charges were approved by Commission Order No. 97-699, in Docket No. 96-376-S dated August 15, 1997.**

2. NONRECURRING CHARGES

- a) *Sewer Service Connection* charge per single-family equivalent \$250.00
- b) *Plant Impact Fee* per single-family equivalent \$800.00
- c) The nonrecurring charges listed above are minimum charges and apply even if the equivalency rating of a non residential customer is less than one (1). If the equivalency rating of a non residential customer is greater than one (1), then the proper charge may be obtained by multiplying the equivalency rating by the appropriate fee. These charges apply and are due at the time new service is applied for, or at the time connection to the sewer system is requested.

3. BULK TREATMENT SERVICES

The Utility will provide bulk treatment services to Richland County ("County") upon request by the County. The rates for such bulk treatment services shall be as set forth above for both monthly charges and nonrecurring charges per single-family equivalent. The County shall certify to the Utility the number of units or taps (residential and commercial) which discharge wastewater into the County's collection system, and shall provide all other information required by the Utility in order that the Utility may accurately determine the proper charges to be made to the County. The County shall insure that all commercial customers comply with the Utility's toxic and pretreatment effluent guidelines and refrain from discharging any toxic or hazardous materials or substances into the collection system. The County will maintain the authority to interrupt service immediately where customers violate the Utility's toxic or pretreatment effluent standards or discharge prohibited wastes into the sewer system. The Utility shall have the unfettered right to interrupt bulk service to the County if it determines that forbidden wastes are being or are about to be discharged into the Utility's sewer system.

The County shall pay for all cost of connecting its collection lines into the Utility's mains, installing a meter of quality acceptable to the Utility to measure

flows, and constructing a sampling station according to the Utility's construction requirements.

4. NOTIFICATION, ACCOUNT SET-UP AND RECONNECTION CHARGES

- a) *Notification Fee*: A fee of fifteen dollars (\$15.00) shall be charged each customer to whom the Utility mails the notice as required by Commission Rule R. 103-535.1 prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating the cost.
- b) *Customer Account Charge*: A fee of \$20.00 shall be charged as a one-time fee to defray the costs of initiating service.
- c) *Reconnection Charges*: In addition to any other charges that may be due, a reconnection fee of two hundred fifty dollars (\$250.00) shall be due prior to the Utility reconnecting service which has been disconnected for any reason set forth in Commission Rule R.103-532.4 and shall be changed to conform with said rule as the rule is amended from time to time.

5. BILLING CYCLE

Recurring charges will be billed bimonthly in arrears. Nonrecurring charges will be billed and collected in advance of service being provided.

6. LATE PAYMENT CHARGES

Any balance unpaid within twenty-five (25) days of the billing date shall be assessed a late payment charge of one and one-half (1½%) percent.

7. TOXIC AND PRETREATMENT EFFLUENT GUIDELINES

The Utility will not accept or treat any substance or material that has been defined by the United States Environmental Protection Agency ("EPA") or the South

Carolina Department of Environmental Control ("DHEC") as a toxic pollutant, hazardous waste, or hazardous substance, including pollutants falling within the provisions of 40 CFR §129.4 and 401.15. Additionally, pollutants or pollutant properties subject to 40 CFR §403.5 and 403.6 are to be processed according to the pretreatment standards applicable to such

pollutants or pollutant properties, and such standards constitute the Utility's minimum pretreatment standards. Any person or entity introducing any such prohibited or untreated materials into the Company's sewer system may have service interrupted without notice until such discharges cease, and shall be liable to the Utility for all damages and costs, including reasonable attorney's fees, incurred by the Utility as a result thereof.

8. CONSTRUCTION STANDARDS

The Utility requires all construction to be performed in accordance with generally accepted engineering standards, at a minimum. The Utility from time to time may require that more stringent construction standards be followed in constructing parts of the system.

9. EXTENSION OF UTILITY SERVICE LINES AND MAINS

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to discharge acceptable wastewater into its sewer system. However, anyone or any entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to an appropriate connection point on the Utility's sewer system may receive service, subject to paying the appropriate fees and charges set forth in this rate schedule, complying with the guidelines and standards hereof, and, where appropriate, agreeing to pay an acceptable amount for multi-tap capacity.

10. CONTRACTS FOR MULTI-TAP CAPACITY

The Utility shall have no obligation to modify or expand its plant, other facilities or mains to treat the sewerage of any person or entity requesting multi-taps (a commitment for five or more taps) unless such person or entity first agrees to pay an acceptable amount to the utility to defray all or a portion of the Utility's costs to make modification or expansions thereto.

11. SINGLE FAMILY EQUIVALENT

The list set forth below establishes the minimum equivalency ratings for commercial customers applying for or receiving sewer service from the Utility. Where the Utility has reason to suspect that a person or entity is exceeding design

loadings established by the South Carolina Department of Health and Environmental Control - Bureau of Water Pollution Control in a publication called "Guidelines for Unit Contributory Loadings to Wastewater Treatment Facilities" (1990), as may be amended from time to time or as may be set forth in any successor publication, the Utility shall have the right to request and receive water usage records from the provider of water to such person or entity.

Also, the Utility shall have the right to conduct an "on premises" inspection of the customer's premises. If it is determined that actual flows or loadings are greater than the design flows or loadings, then the Utility shall recalculate the customer's equivalency rating based on actual flows or loadings and thereafter bill for its services in accordance with such recalculated loadings.

PALMETTO UTILITIES, INC
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APPENDIX A

| <u>TYPE OF ESTABLISHMENT</u> | | <u>EQUIVALENCY RATING</u> |
|------------------------------|--|---------------------------|
| 1. | Airport | |
| | Per Employee ----- | .025 |
| | Per Passenger ----- | .0125 |
| 2. | Apartments ----- | 1.0 |
| 3. | Assembly Halls | |
| | Per Seat ----- | .0125 |
| 4. | Barber Shop | |
| | Per Employee ----- | .025 |
| | Per Chair ----- | .25 |
| 5. | Bars, Taverns | |
| | Per Employee ----- | .025 |
| | Per Seat (excluding restaurant) ----- | .1 |
| 6. | Beauty Shop | |
| | Per Employee ----- | .025 |
| | Per Chair ----- | .3125 |
| 7. | Boarding House | |
| | Per Resident ----- | .125 |
| 8. | Bowling Alley | |
| | Per Employee ----- | .025 |
| | Per Lane (no restaurant, bar, lounge) ----- | .3125 |
| 9. | Camps | |
| | Resort, Luxury (per person) ----- | .25 |
| | Summer (per person) ----- | .125 |
| | Day (with central bath house – per person) ----- | .0875 |
| 10. | Car Wash | |
| | Per Car Washed ----- | .1875 |
| 11. | Churches | |
| | Per Seat ----- | .0075 |

| <u>TYPE OF ESTABLISHMENT</u> | | <u>EQUIVALENCY RATING</u> |
|------------------------------|--|---------------------------|
| 12. | Clinics, Doctor's Office | |
| | Per Employee ----- | .0375 |
| | Per Patient ----- | .0125 |
| 13. | Country Club, Fitness Center, Spa | |
| | Per Member ----- | .125 |
| 14. | Dentist Offices | |
| | Per Employee ----- | .0375 |
| | Per Chair ----- | 1.125 |
| 15. | Factories, Industries | |
| | Per Employee ----- | .0625 |
| | Per Employee (with showers) ----- | .0875 |
| | Per Employee (with kitchen facilities) ----- | .1 |
| | Per Employee (with showers & kitchen) ----- | .1125 |
| 16. | Fairgrounds | |
| | Per Person (based on average attendance) ----- | .0125 |
| 17. | Grocery Stores | |
| | Per 1000 sq. ft. space (no restaurant) ----- | .5 |
| 18. | Hospitals | |
| | Per Bed ----- | .5 |
| | Per Resident Staff ----- | .25 |
| 19. | Hotels | |
| | Per Bedroom (no restaurant) ----- | .25 |
| 20. | Institutions | |
| | Per Resident ----- | .25 |
| 21. | Laundries (self service) | |
| | Per Machine ----- | 1.0 |
| 22. | Marinas | |
| | Per Ship ----- | .075 |
| 23. | Mobile Homes ----- | 1.0 |

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| <u>TYPE OF ESTABLISHMENT</u> | | <u>EQUIVALENCY RATING</u> |
|---|--|---------------------------|
| 24. Motels | | |
| | Per Unit (no restaurant) ----- | .25 |
| 25. Nursing Homes | | |
| | Per Bed ----- | .25 |
| | Per Bed (with laundry) ----- | .375 |
| 26. Offices, Small Stores, Business, Administration Bldg. | | |
| | Per Person (no restaurant) ----- | .0625 |
| 27. Picnic Parks | | |
| | Average Attendance (per person) ----- | .025 |
| 28. Prison/Jail | | |
| | Per Employee ----- | .0375 |
| | Per Inmate ----- | .3125 |
| 29. Residences | | |
| | Single Family ----- | 1.0 |
| 30. Rest Areas, Welcome Centers----- | | |
| | Per Person ----- | .0125 |
| | Per Person (with showers) ----- | .025 |
| 31. Rest Homes | | |
| | Per Bed ----- | .25 |
| | Per Bed (with laundry) ----- | .375 |
| 32. Restaurants | | |
| | Fast Food Type (per seat - not 24 hours) ----- | .10 |
| | 24 Hour (per seat) ----- | .175 |
| | Drive-in (per car served) ----- | .10 |
| | Vending Machine, Walk-up Deli (per person) ----- | .10 |
| 33. Schools, Day Care | | |
| | Per Person ----- | .025 |
| | Per Person (with cafeteria) ----- | .0375 |
| | Per Person (with cafeteria, gym & shower) ----- | .05 |
| 34. Service Stations | | |
| | Per Employee ----- | .025 |

| <u>TYPE OF ESTABLISHMENT</u> | | <u>EQUIVALENCY RATING</u> |
|------------------------------|---|---------------------------|
| | Per Car Served ----- | .025 |
| | Per Car Wash (per car washed) ----- | .1875 |
| 35. | Shopping Centers, Large Department Stores, Malls | |
| | Per 1,000 sq. ft. space (no restaurants) ----- | .5 |
| 36. | Stadiums | |
| | Per Seat (no restaurants) ----- | .0125 |
| 37. | Swimming Pools | |
| | Per Person (with sanitary facilities & showers) ----- | .025 |
| 38. | Theatres | |
| | Drive-in (per stall) ----- | .0125 |
| | Indoor (per seat) ----- | .0125 |